NORTH SUMMIT SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2006

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Royce J. Richards, J. D., CPA Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Board of Education North Summit School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Summit School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Summit School District's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

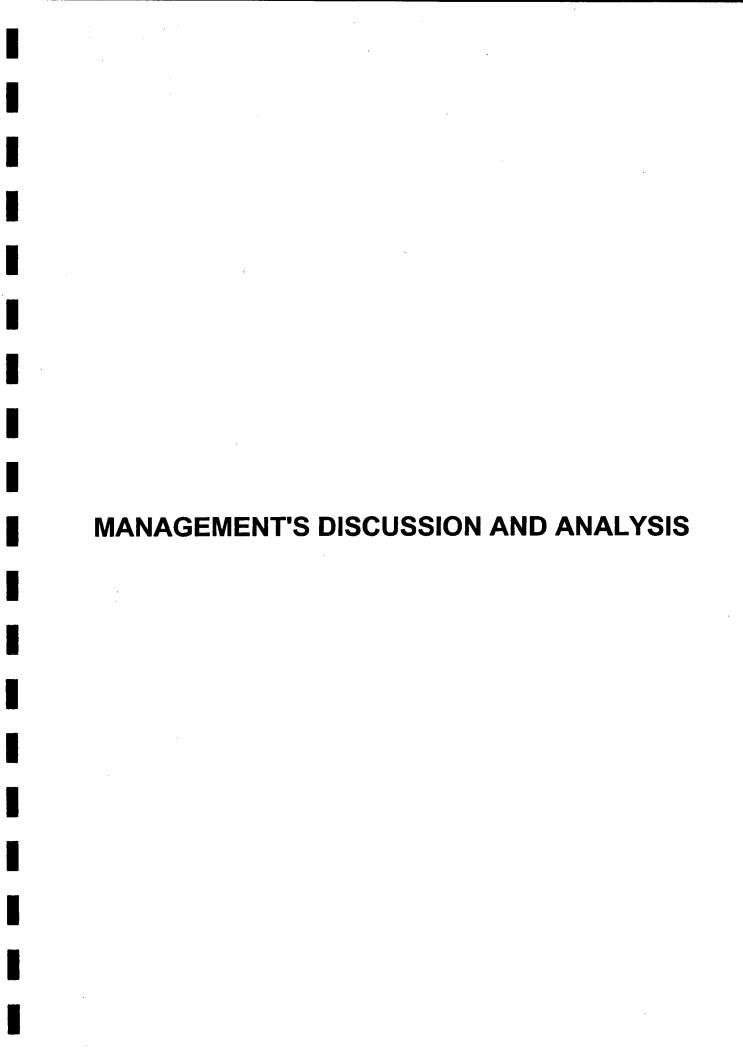
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Summit School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2006, on our consideration of North Summit School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

WOOD Richards & Associates

Ogden, Utah September 12, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

This document is a narrative overview and analysis of the financial activities of North Summit School District for the fiscal year ending June 30, 2006. North Summit School District management encourages readers to consider the information presented here in conjunction with the financial statements, which follow this section. To help the reader with navigation of this report the district's activities are classified in the following manner: government activities include basic services such as instructional services, supporting services (students, instructional staff, general district administration, school administration, business, operation and maintenance, and student transportation), food service, and other. There are no business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District.

Basic Financial Statements

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the district owns the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Government activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long-term liabilities.
- The Statement of Activities focuses gross and net costs of district programs and the extent to which such programs rely upon general tax and revenues. This statement summarizes the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major government funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The District's major government funds are presented in their own column and the remaining funds are combined into a column titled "Other Government Funds." A budgetary comparison is presented for the general fund, which is the only fund for which a budget is legally adopted. Statements for the District's proprietary funds follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flow.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

Readers desiring additional information on nonmajor funds can find it in the Combining Statements of Nonmajor Fund's section of this report. Completing the financial section of the report are schedules on capital assets and other financial schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

The Management's Discussion and Analysis is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

District as a Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Assets at June 30, 2006 and 2005 follows:

Net Assets at Year-end

	Governmental Activities		
	2006	2005	
Cash and investments	\$1,555,837	\$ 8,2 75, 816	
Other assets	378,297	443,291	
Capital assets	19,432,871	14,763,326	
Total assets	21,367,005	23,482,433	
Other liabilities	849,862	2,599,289	
Long term outstanding	11,872,895	12,646,259	
Total liabilities	12,722,757	15,245,548	
Net assets:			
Invested in capital assets,			
Net of related debt	7,620,893	2,1 71, 384	
Restricted	39,596	4,290,491	
Unrestricted	983,759	1,765,010	
Total net assets	\$ 8,644,248	\$ 8,226,885	

During the year ended June 30, 2006 there was one significant event that changed the components of net assets from cash to capital assets. An explanation of this event follows:

The District completed the middle school, for an additional cost of \$ 5,049,538 with a total cost over a two-year period of \$11,873,858. The District's cash decreased by \$6,719,979 due mostly in part by the construction of the middle school.

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

A condensed version of the Statement of Activities follows:

Governmental and Proprietary Activities For the years ended June 30, 2006 and 2005

	Government	al Activities
	2006	2005
Revenues		
Program revenues		
Charges for services	\$ 212,892	\$ 193,214
Grants and contributions	2,672,321	2,492,319
General revenues		
Taxes	3,951,044	3,938,941
Federal and state aid	2,1 78, 619	2,170,029
Earnings on investments	1 45, 611	263,529
Miscellaneous	62,948	112,791
Total revenues	9,223,435	9,170,823
Expenses		
Instructional services	4,607,746	4,316,828
Supporting services:	, ,	
Students	357,003	486,180
Instructional staff	198,314	118,050
General district administration	222,712	223,805
School administration	393,824	359,973
Business	109,202	101,866
Operation and maintenance	1,147,743	1,047,429
Student transportation	531,272	466,476
Food service personnel	337,549	303,536
Other	431,838	386,950
Interest on long-term liabilities	468,869	364,769
Total expenses	8,806,072	8,175,862
Change in net assets	417,363	994,961
Beginning net assets	8,226,885	7,231,924
Ending net assets	\$ 8,644,248	\$ 8,226,885

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Governmental activities:

For the year ended June 30, 2006 the total revenues for the governmental activities were \$9,223,435. Program revenues totaled \$2,885,213. The major sources of program revenues are charges for services, and operating grants and contributions. General revenues for the year totaled \$6,338,222. The major sources of general revenues are taxes, federal and state aid, and interest earnings. Taxes comprise 43% of the District's total revenues.

The District's change in net assets for the year 2006 was \$ 417,363, which was \$ 577,598 less than the prior year change in net assets. This difference was due to the following:

- A decrease in earnings on investments of \$ 117,918.
- An increase in interest expense of \$ 104,100.
- An increase in depreciation expense of \$ 164,340.
- An increase in instructional services of \$ 290,918.

Budgetary Highlights

During the year the District had a budget revision. At the end of the year there were no budget shortfalls. In total, the general fund's expenditures were \$ 131,345 less than was budgeted.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2006 the District had \$ 19,432,871 invested in capital assets, including land, buildings, and equipment. This amount represents a net increase (additions, deductions, and depreciation) of \$ 4,669,545, or 32% over last year.

Capital Assets at Year-end	·	
	Government	al Activities
	2006	2005
Land	\$ 1,736,101	\$ 1,736,101
Buildings	21,924,206	16,864,260
Equipment	998,298	950,289
Subtotal	24,658,605	19,550,650
Accumulated depreciation	5,225,734	4,787,324
Capital assets, net	\$19,432,871	\$14,763,326

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Capital Assets (continued)

The most significant change to the capital assets during the current year was the continued construction of the new middle school for \$5,049,538.

Debt Outstanding

At year-end, the District had \$ 11,872,895 in bonds and notes outstanding versus \$ 12,656,259 last year, a decrease of \$ 783,364.

Debt Outstanding	g at Year-end	
	Governmen	tal Activities
	2006	2005
South Summit School District	\$ 93,332	\$ 124,372
Lease purchase 3.103%	299,498	598,995
Lease purchase 5.3625%	948,723	1,027,309
2004 Series Bonds	10,455,000	10,825,000
2004 Series Bonds Premium	76,342	80,583
Total debt		
outstanding	\$11,872,895	\$12,656,259

Debt service payments in the fiscal year 2006 increased by \$ 342,917.

More detailed information on the District's long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Property taxes make up 43% of total revenues.
- State aid makes up 48% of total revenues.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District's Business Administrator at 76 S 100 E, Coalville, Utah 84017.

BASIC FINANCIAL STATEMENTS

NORTH SUMMIT SCHOOL DISTRICT STATEMENT OF NET ASSETS JUNE 30, 2006

ASSETS	Governmental Activities
Current Assets: Cash and investments Accounts receivable Inventories	\$ 1,555,837 310,802 6,578
Total Current Assets	1,873,217
Capital assets: Land Buildings Equipment Less Accumulated depreciation	1,7 36, 101 21,924,206 998,298 (5,225,734)
Capital Assets, Net	19,432,871
Other assets: Unamortized bond issue costs Total Assets	60,917 21,367,005
LIABILITIES	
Current liabilities: Accounts payable Accrued wages payable Accrued liabilities payable Due to student organizations	20,697 632,676 134,448 62,041
Total Current Liabilities	849,862
Noncurrent liabilities: Due within one year: Current portion of notes payable Current portion of lease purchase agreements Current portion of bonds payable Due in more than one year: Notes payable	31,070 351,390 395,000 62,26 3
Lease purchase agreements	896,830
Bonds payable Unamortized bond premium	10,060,000 76,342
Total Noncurrent Liabilities	11,872,895
Total Liabilities	12,722,757
NET ASSETS Invested in capital assets, net of related debt Restricted for grant programs Unrestricted Total Net Assets	7,620,893 39,596 983,759 \$ 8,644,248

NORTH SUMMIT SCHOOL DISTRICT STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2006

		P	Program Revenu	es	Net (Expense) Revenue and Changes in Net Assets
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					• • • • • • • • • • • • • • • • • • • •
Instructional services	\$ 4,607,746	\$ -	\$ 2,068,981	\$ -	\$ (2,538,765)
Supporting services:		00.400			(***
Students	357,003	29,129	62,642	₹.	(265,232)
Instructional staff	198,314	-	150,606	.	(47,708)
General district administration	222,712	-	-	•	(222,712)
School administration	393,824	•	•	-	(393,824)
Business	109,202	-	-	•	(109,202)
Operation and maintenance	1,147,743	-	-	•	(1,147,743)
Student Transportation	531,272	400 700	254,728	•	(276,544)
Food service personnel	337,549	183,763	135, 364	-	(18,422)
Other	431,838	-	•	-	(431,838)
Interest on long-term liabilities	468,869		-		(468,869)
Total school district	\$ 8,806,072	\$ 212,892	\$ 2,672,321	\$ -	(5,920,859)
	General revenu	106.			
	Property taxe				
	General pu				1,405,294
	Recreation	•			288,871
	Debt service	e			849,621
	Capital out	lay			1,407,258
			tricted to specif	ic purposes	2,178,619
	Earnings on		•	• •	145,611
	Miscellaneou				62,948
	Total gen	ieral revenues a	nd special item		6,338,222
	Change	e in net assets			417,363
	Net assets - be	ginning			<u>8,226,8</u> 85
	Net assets - en	ding			\$ 8,644,248

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	Major Funds							
ASSETS		Maintenance and Capital Operation Projects		Other Governmental Funds		Total Governmental Funds		
Cash and investments Accounts receivable Due from other funds Inventories	\$	1,154,499 191,049 38,582	\$	198,479 68,014 - -	\$	202,859 51,739 - 6,578	\$	1,555,837 310,802 38,582 6,578
Total assets	\$	1,384,130	\$	266,493	\$	261,176	\$	1,911,799
LIABILITIES AND FUND BALANCES								
Liabilities: Accounts payable Accrued wages payable Accrued liabilities payable Due to student organizations Due to other funds	\$	20,697 632,676 134,448 -	\$	- - - -	\$	- - 62,041 38,582	\$	20,697 632,676 134,448 62,041 38,582
Total liabilities		787,821				100,623		888,444
Fund equity: Fund balances:								
Undistributed designation		330,367		-		-		330,367
Reserved for grant programs		39,596		-		•		39,596
Unreserved, undesignated		226,346		266,493		160,553		653,392
Total fund equity		596,309	 -	266,493		160,553		1,023,355
Total liabilities and fund equity	\$	1,384,130	\$	266,493	\$	261,176	\$	1,911,799

NORTH SUMMIT SCHOOL DISTRICT RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2006

Total fund balance - governmental funds

\$ 1,023,355

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	1,736,101
Buildings	21,924,206
Equipment	998,298
Less Accumulated Depreciation	(5,225,734)

Bond issuance costs are amortized over the life of the bonds on the statement of net assets

60,917

19,432,871

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities -both current and long-term - are reported in the statement of net assets. Balances at year end are:

Bonds payable	(10,455,000)	
Note payable	(93,333)	
Lease/purchase agreement	(1,248,220)	
Unamortized bond premium	(76,342)	(11,872,895)

Total net assets - governmental activities

\$ 8,644,248

NORTH SUMMIT SCHOOL DISTRICT STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BLANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2006

•	Major Funds			·		
	Maintenance and Operation	Capital Projects	Other Governmental Funds	Total Governmental Funds		
Revenue:						
Local revenue:	•					
Property tax	\$ 1,405,294	\$ 1,407,258	\$ 1,138,492	\$ 3,951,044		
Earnings from investments	97,997	•	47,614	145,611		
Other local sources	62,948	•	212,892	275,840		
State aid	4,311,137	-	111,724	4,422,861		
Federal aid	329,886		98,193	428,079		
Total revenue	6,207,262	1,407,258	1,608,915	9,223,435		
Expenditures:						
Instructional services	4,607,746	_	_	4,607,746		
Support services:	1,007,1140		_	4,007,740		
Students	135,704	-	_	135,704		
Instructional staff	125,340	_	_	125,340		
General district administration	220,616	-	_	220,616		
School administration	364,961	-	_	364,961		
Business	109,202	-	_	109,202		
Operation and maintenance	468,435	_	<u>-</u>	468,435		
Student transportation	442,291	_	<u>-</u>	442,291		
Food services			337,549	337,549		
Other	1,700	-	430,138	431,838		
Capital outlay	.,,,,,	5,763,065	-	5,7 63 ,065		
Debt service:		0,700,000		3,703,003		
Principal retirement	•	377,864	401,259	7 79 ,123		
Interest and fiscal charges	-	66,928	402,783	469,711		
Total expenditures	6,475,995	6,207,857	1,571,729	14,255,581		
Excess (deficiency) of revenue over expenditures	(268,733)	(4,800,599)	37,186	(5,032,146)		
Other financing sources (uses):						
Transfers in	ē	267,926	_	267,926		
Transfers out	•	-	(267,926)	(267,926)		
Total other financing sources (uses)		267,926		(301,030)		
• •		201,320	(267,926)			
Excess (deficiency) of revenue and other sources (uses) over expenditures	(268,733)	(4,532,673)	(230,740)	(5,032,146)		
Fund balances (deficit) - beginning of year	865,042	4,799,166	391,293	6,055,501		
Fund balances (deficit) - end of year	\$ 596,309	\$ 266,493	\$ 160,553	\$ 1,023,355		
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NORTH SUMMIT SCHOOL DISTRICT RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2006

Net change in fund balances-total governmental funds		\$ (5,032,146)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays Depreciation expense	5,192,955 (523,410)	4,669,545
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Repayment of bond principal		779,123
Governmental funds report the effect of issuance costs and premiums when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The effects of these differences in the treatment of general obligation bonds and related items is as follows:		
Amortization of bond premium Amortization of bond issuance costs	4,241 (3,400)	841

417,363

Change in net assets of governmental activities

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. <u>Summary of Significant Accounting Policies</u>

This summary of significant accounting policies of North Summit School District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, as applicable to governmental units.

Organization

North Summit School District (District) operates under a board/superintendent form of government and provides public education to the residents of North Summit, Utah.

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic - but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application for this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. Summary of Significant Accounting Policies (continued)

Government-wide and fund financial statements (continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, school administration, operation and maintenance of facilities, and school lunch services) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line item.

Program revenues include 1) fees and charges paid by students and other recipients of goods or services offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

The Maintenance and Operation Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the Maintenance and Operation Fund.

The Capital Projects Fund is used to account for all resources for the acquisition or construction of capital facilities by the District.

The District reports the following nonmajor governmental funds

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for the accumulation of resources used for the acquisition or construction of capital improvements (other than those financed by Trust Funds).

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. <u>Summary of Significant Accounting Policies (continued)</u>

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, early retirement and post-employment healthcare benefits, arbitrage rebates, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations laps at fiscal year-end with the exception of those indicated as a fund balance reserve. Budgets are adopted on a basis consistent with generally accepted accounting principles. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During May of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.
- Copies of the proposed budget are made available for public inspection and review by the patrons of the District.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. <u>Summary of Significant Accounting Policies (continued)</u>

Budgetary Data (continued)

- If the District does not exceed the certified tax rate, a public hearing is held prior to June 22 at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.
- Once adopted, the budget can be amended by subsequent Board action. The Board upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2006, have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Deposits and Investments

The cash balance of substantially all funds are pooled and invested by the District for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The District's investments are reported at fair value at year-end. The Utah Public Treasurers' Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

Cash and Cash Equivalents

The District considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of inter-fund loans) or "advances from/to other funds" (i.e., the non-current portion of inter-fund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. Summary of Significant Accounting Policies (continued)

Inventories

USDA commodity products have been valued in the financial statements at fair market value. When the commodities are used they are included in the school food service fund as a cost of food sold and as revenue from federal programs.

Purchased food inventory is reported as expenditure when the inventory is consumed. Such inventory is valued using the first-in, first-out cost method.

Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 for land, and furniture and equipment and \$100,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements and portable classrooms	20
Buses	10
Furniture and equipment	10
Vehicles	10
Computer equipment	5

Bond Issue Costs

The District incurred \$68,000 in bond issue costs in 2004. Those issuance costs are amortized using the straight-line method in the government-wide financial statements for the term of the bonds from which the costs were incurred. The costs will be fully amortized in 2024.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

1. <u>Summary of Significant Accounting Policies (continued)</u>

Long-term Obligations

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. While discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Equity

Fund Financial Statements:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the District generally uses the restricted resources first, then unrestricted resources.

2. Deposits and Investments

The District maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents' which also includes cash accounts that are separately held by some of the District's funds. Deposits are not collateralized nor are they required to be by State statute.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

2. Deposits and Investments (continued)

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$511,970 of the District's bank balances of \$611,970 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

2. Deposits and Investments (continued)

As of June 30, 2006, the District had the following investments and maturities:

		Investment Maturities (in Years)					
Investment Type	Fair Value	Less than 1	1-5	6-10	More than	Quality Ratings	
PTIF Investments	1,258,710	1,258,710	<u> </u>		<u> </u>	not rated	
	1,258,710	1,258,710		<u> </u>			

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing only in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted in the previous table.

Credit risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

2. Deposits and Investments (continued)

Components of cash and investments (including interest earning deposits) at June 30, 2006, are as follows:

Cash on hand and on deposit:

Cash on deposit PTIF investment

\$ 29**7**,12**7** 1,25**8**,710

Total cash and investments

\$ 1,555,**8**37

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and investments

\$ 1,555,837

Total cash and investments

\$ 1,555,837

3. Accounts Receivable

The property tax revenue of the District is collected and distributed by the North Summit Treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners.

A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer.

Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid.

As of June 30, 2006, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2006 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

3. Accounts Receivable (continued)

The accounts receivable as of Jun 30, 2006, including the applicable allowances for uncollectible accounts, are as follows:

		intenance and peration	Capital rojects	Re	creation		Debt ervice	Food ervice	<u>-</u>	Total
Receivables: Tax Local State	\$	47,587 17,197 3, 74 0	\$ 58,919 9,095 -	\$	15,2 74 - -	\$	25,265 - -	\$ - 11,200 -	\$	37,492 3, 74 0
Federal Gress Receivables	<u></u>	122,525 191,049	 68,014		15,274		2 5,2 65	 11,200		122 <u>,525</u> 310,802
Less: Allowance for Uncollectibles Net Total		191,049	\$ 68,014	\$	- 15,2 74	\$	- 25,265	 11,200		310,802

4. <u>Capital Assets</u>

Capital Asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated Land	\$1,736,101	<u> </u>	\$	\$ 1,736,101
Total capital assets, not being depreciated	1,736,101	-	-	1,736,101
Capital assets, being depreciated				
Buildings	16,864,260	5,059,946	-	21,924,206
Equipment	950,289	133,009_	(85,000)_	998,298
Total capital assets, being depreciated	17,814,549	5,192,955	(85,000)	22,922,504
Accumulated Depreciation for:				
Buildings	(4,320,785)	(433,231)	-	(4,754,016)
Equipment	(466,539)_	(90,179)	85,000	(471,718)
Total accumulated depreciation	(4,787,324)	(523,410)	85,000	(5,225,734)
Total capital assets, being depreciated, net	13,027,225	4,669,545		17,696,770
Governmental activities capital assets, net	\$14,763,326	\$4,669,545	\$ -	\$19,432,871

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

4. Capital Assets (continued)

For the year ended June 30, 2006, depreciation expense was charged to functions of the District as follows:

Governmental activities:

9, 97 5
2,096
28,863
393 ,49 5
<u>88,981</u>
\$ 523.410

5. Accrued Wages Payable

Wages payable result from unpaid employee service at the balance sheet date. This amount arises from teacher contracts which spread payments for ten months of service over a twelve month period.

6. <u>Long-term Liabilities</u>

Long-term liability activity for the year ended June 30, 2006 is as follows:

Governmental Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
South Summit School District	\$ 124,372	\$ -	\$ (31,040)	\$ 93,332	\$ 31,070
Lease purchase 3.103%	598,995	-	(299,497)	299,498	299,498
Lease purchase 5.3625%	1,027,309	-	(78,586)	948,723	51 ,89 2
2004 Series Bonds	10,825,000	-	(370,000)	10 ,45 5,00 0	395,000
2004 Series Bonds Premium	80,583		(4,241)	<u>76,342</u>	
Total Debt	12,656,259		(783,364)	11,872,895	777,460
Total Governmental Activities	\$12,656,259	<u> </u>	\$ (783,364)	\$11,872,895	\$ 777,460

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

6. Long-term Liabilities (continued)

South Summit School District:

The District has \$93,332 in a note payable to South Summit School District. This note was created by a change in School District boundaries. No interest is due. The debt maturities are as follows:

For the Year Ended June 30,	Principal
2007	31,070
2008	31,058
2009	31,204
Total	\$ 93,332

Lease Purchase 3.103%

The District has \$299,498 in lease/purchase agreement, with an interest rate of 3.103%. Repayment will be due in 2007. The debt maturities are as follows:

For the Year Ended June 30,	Principal	Interest	Total Payments
2007	299,498	9,293	308,791
Total	\$ 299,498	\$ 9,293	\$ 308,791

Lease Purchase 5.3625%

The District has \$948,723 in lease/purchase agreement, with an interest rate of 5.3625%. Repayment will be due in years 2007 through 2019. The debt maturities are as follows:

For the Year Ended June 30,	Principal	Interest	Total Payments
2007	51,892	50,754	102,646
2008	54,745	47,901	102,646
2009	57,754	44,892	102,646
2010	60,928	41,718	102,646
2011	64,277	38,369	102,646
2012-2016	378,483	134,747	513,230
2017-2019	280,644	27,288	307,932
Total	\$ 948,723	\$ 385,669	\$ 1,33 4, 392

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

6. <u>Long-term Liabilities (continued)</u>

2004 Series Bonds

The District has \$10,455,000 in outstanding general obligation bonds issued in 2004 with a true interest rate of 3.92%. Repayment will be due in years 2007 through 2024 and will be financed from the proceeds of property taxes. The debt maturities are as follows:

For the Year Ended June 30,	Principal	Interest	Total Payments
2007	395,000	390,861	785,8 61
2008	415,000	382,961	797,961
2009	445,000	372,586	817,586
2010	475,000	360,349	835,349
2011-2015	2,605,000	1,569,529	4,174,529
2016-2020	3,130,000	1,042,744	4,172,744
2021-2024	2,990,000	347,055	3,337,055
Total	\$10,455,000	\$ 4,466,085	\$14,921,085

7. Inter-fund Balances and Activity

For the year ended June 30, 2006, there was one transfer made between the Building Reserve fund and the Capital Projects fund. The transfer was for \$267,926 and was transferred to cover capital expenditures in the Capital Projects fund related to the new Middle School building.

In addition to the interfund transfer described above there are also interfund borrowings which have been accrued by certain funds in order to borrow money on a short-term basis to cover the expenditures incurred in excess of available funds. The interfund borrowings are outlined below:

		Due from:			
Due to:	Recreation	Food Service	Non K-12	Total	
Maintenance and Operation	\$ 13,482_	\$ 20,298_	\$ 4,802	\$ 38,582	

8. Reservations and Designations of Fund Balances

Undistributed Designation- The State of Utah allows school districts to set aside up to 5% of their maintenance and operation fund budget in a working capital reserve (undistributed reserve). This reserve requires formal board action to establish or spend. The District has set aside \$330,367.

Grant programs – This reservation consists of excess revenues over expenditures accumulated over the year which remain restricted for their intended purpose set by state categorical funding.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

9. Pension and Deferred Compensation Agreements

State and School - Cost Sharing

Plan Description. The North Summit School District contributes to the State and School Noncontributory Retirement System and the State and School Noncontributory Retirement Systems, cost sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Noncontributory Retirement System the District is required to contribute 11.70% of their annual covered salary. A copy of the report may be obtained by writing the Utah Retirement Systems, 540 East 200 South, Salt lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members In the State and School Contributory Retirement System are required to contribute 0.00% of their annual covered salary (all or part may be paid by the employer for the employee) and the District is required to contribute 0.00% of their annual covered salary. In the State and School Noncontributory Retirement System the District is required to contribute 13.38% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions to the State and School Contributory Retirement System for the years ending June 30, 2006, 2005, and 2004 were \$0, \$0, and \$0 respectively and for the Noncontributory Retirement System the Contributions for June 30, 2006, 2005, and 2004 were \$466,686, \$440,348, and \$396,481 respectively. The contributions were equal to the required contributions for each year.

The District provides a 401(k) plan through which employees may make contributions. The District made matching contributions for the years ending June 30, 2006, 2005, and 2004 in the amounts of \$52,321, \$49,369, and \$50,834 respectively.

10. Grants

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the Maintenance and Operation fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

11. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; natural disasters; employee health claims and workers' compensation. The District purchases general and automobile liability insurance. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the coverage in any of the past three fiscal years.

12. Deficit Fund Balances

The Food Service fund had a deficit fund balance at year end of \$2,520 and the Non K-12 fund also had a deficit fund balance at year end of \$4,802. Both funds incurred expenditures from operations in excess of revenues for the past two years. Currently, funds are borrowed from the General fund until the Food Service fund and Non K-12 fund repay the money in the future.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH SUMMIT SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL MAINTENANCE AND OPERATION YEAR ENDED JUNE 30, 2006

		Amounts	Actual	Variance with Final Budget - Positive
	Original Final		Amounts	(Negative)
Revenues:				
Property taxes	\$ 1,414,232	\$ 1,709,329	\$ 1,405,294	\$ (304,035)
Earnings on investments	52,123	103,933	9 7,99 7	(5,936)
Other local sources	112,791	75,848	62,94 8	(12,900)
State aid	4,115,268	4,388,344	4,311,137	(77,207)
Federal aid	362,015	329,886	329,886	
Total revenues	6,056,429	6,607,340	6,207,262	(400,078)
Expenditures:				
Current:			4 007 740	404 000
Instructional services	4,316,828	4,732,654	4,607,746	124,908
Supporting services:			105 504	
Students	146,658	135,704	135,704	•
Instructional staff	118,0 50	125,428	125,340	88
General district administration	221,709	223,749	220,616	3,133
School administration	337,794	365,925	364,96 1	964
Business	101,866	109,418	10 9,2 02	216
Operation and maintenance of facilities	232,938	470,096	468,435	1,661
Student Transportation	386,825	442,666	442,291	375
Other support	1,236	1,700	1,700	
Total expenditures	5,863,904	6,607,340	6,475,995	131,345
Excess of revenues over expenditures	192,525		(268,733)	(268,733)
Other financing sources (uses): Transfers in	-	-	• •	-
Transfers out	<u> </u>	-		-
Net change in fund balances	192,525	•	(268,733)	(268,733)
Fund balances - beginning	865,042	865,042	865,042	-
Fund balances - ending	\$ 1,057,567	\$ 865,042	\$ 596,309	\$ (268,733)

SUPPLEMENTARY INFORMATION

	Debt ervice	Building Reserve	Total Nonmajor Governmental Funds
\$	40,818 25,265	\$ 100,000 - -	\$ 202,859 51,739 6,578
<u> </u>	66,083	\$ 100,000	\$ 261,176
	:	_	
•	•	\$ -	\$ 62,041 38,582
1.1	•	-	100,623
	66,083	100,000	160,553
	66,083	100,000	160,553
\$	66,083	\$ 100,000	\$ 261,176

Debt Service		Building Reserve	Total
\$	849,621	\$ -	\$ 1,138,492
	•	47,614	
	•	•	212,892
	-	-	111,724
	<u> </u>	-	98,193
	849,621	47,614	1,608,915
	•	-	337,549
•	•	. •	430,138
	401,259	. •	401,259
<u>.</u>	402,783	-	402,783
· .	804,042		1,571,729
	45,579	47,614	37,186
	. .	- (267,926)	(267,926)
	45,579	(220,312)	(230,740)
	20,504	320,312	391,293
\$	66,083	\$ 100,000	\$ 160,553

AUDITORS' REPORTS



Royce J. Richards, J. D., CPA Lynn J. Wood, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Board of Education North Summit School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Summit School District, as of and for the year ended June 30, 2006, which collectively comprise North Summit School District's basic financial statements and have issued our report thereon dated September 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Summit School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Summit School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Summit School District in a separate letter dated September 12, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

WOOD Richards & Associates

Ogden, Utah September 12, 2006



Royce J. Richards, J. D., CPA Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT STATE OF UTAH LEGAL COMPLIANCE

The Honorable Board of Education North Summit School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of North Summit School District, for the year ended June 30, 2006 and have issued our report thereon dated September 12, 2006. As part of our audit, we have audited North Summit School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The District received the following major assistance programs from the State of Utah.

Minimum School Program

The District received the following nonmajor State grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of North Summit School District's financial statements).

Drivers Education

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation & Property
Tax Limitations
Other General Compliance Issues

The management of North Summit School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report on State Legal Compliance Page 2

The results of our audit procedures disclosed an immaterial instance of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, North Summit School District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

WOOD Richards & Associates

Ogden, Utah September 12, 2006



Royce J. Richards, J. D., CPA Lynn J. Wood, CPA

September 12, 2006

Honorable Board of Education North Summit School District

We have recently completed our audit of the basic financial statements of North Summit School District for the year ended June 30, 2006. During our audit we noted the following item for your consideration:

State law does not allow for deficits to exist in any fund balance. We noted that
two funds, Food Service and Non K-12, have deficit fund balances. We
recommend the District include as an item of appropriation in each of these funds
the amount shown as a deficit in order to eliminate the deficits in the 2007 fiscal
year.

We appreciate the cooperation we received during the course of our audit.

Sincerely,

WOOD Richards & Associates

Wood, Richards & Associates, PC